

The BIGSQUEEZE



By Paul J. Lim

The pressure is on baby boomers saving for retirement. Many also face college tuition and caring for a parent

In his State of the Union address, President Bush made a pledge to Americans 55 and older. Yes, it's true he plans to overhaul the nation's retirement safety net, he said. But "for you," he promised, "the Social Security system will not change in any way."

How about workers who were born in 1950 or later? What kind of guarantee do they get? Apparently none in today's retirement

The Eberts of West Chester, Pa., are facing the crunch of college tuitions.

world. For workers in their mid-40s and 50s, the specter of Social Security reform adds yet another air of uncertainty to their retirement plans. Already shaken by a three-year bear market at the start of this decade, and a listless market now, workers must also confront an ever-changing global economy and, for many, the squeeze presented by the need to finance college tuitions and care for aging parents. Many of them are facing this uncertain age with only the barest of financial preparation: Forty-one percent of workers ages 45 to 54 have less than \$25,000 saved up for retirement.

But even those who have planned by the book are enduring their share of anxiety. For much of their careers, Paul and Margaret Eberts of West Chester, Pa., have done the right thing by saving 10 to 15 percent of their annual income.

The crunch years. But while Paul, 48, and Margaret, 47, make a decent living—he's a family practice physician while she works part time as a physician in occupational medicine—the Eberts aren't so sure they'll be able to keep hitting those targets. That's because "the crunch years" are just a couple years off, says Paul.

Paul and Margaret have four kids: two boys and two girls ages 16, 14, 12, and 10. Between 2007 (when their oldest starts college) and 2017 (when their youngest is expected to finish up her undergraduate work), the Eberts's biggest financial obligation will be paying for college "It's going to be a real question mark whether we'll be able to

65%

contribute the max to our retirement plans," during this stretch, says Paul who will be 60 at the end of it.

"Young boomers are running out of time to save," says Mike Scarborough, president of the Scarborough Group, a retirement planning advisory firm.

Assuming current expectations for Social Security benefits, only around 40 percent of workers born between 1951 and 1960 are on track to have enough money to cover basic expenses in retirement, based on their current savings and investment behavior. That's according to an analysis by the Employee Benefit Research Institute. "And that's just to meet basic living expenses," says EBRI Chief Executive Officer Dallas Salisbury. As

anyone reaching middle age knows, life can throw out a curve ball, like an illness or the loss of a job.

Already, the boomer generation has borne the brunt of the seismic shift in the private sector, from traditional pensions—with their promise of income for life—to do-it-yourself retirement plans like 401(k)'s, which put workers at the mercy of the markets.

Even boomers lucky enough to be covered by traditional pensions are waking up to a new reality: It turns out those guaranteed benefits aren't necessarily guaranteed after all. Many pilots and flight attendants at United Airlines, for example, are likely to see their pensions slashed now that the struggling airline

has been allowed to offload its pension to the federal Pension Benefit Guaranty Corp. Other employers could follow United's example.

And the boomers need to plan for *long* retirements. Modern medicine and better diets are yielding longer lives. The average American woman today can expect to live until 80, up nearly five years from 1970. Those who make it to 65 can expect to live until nearly 84.

Yet boomers also have to worry about higher expenses in their elongated retirements—and not just because of their propensity to spend. Only 13 percent of private-sector employers offer medical benefits to retired former workers, according to EBRI. And the promise of

ages 45 to 54 say they're saving for retirement.

longer lives through better medicine has come with a price. Healthcare expenses could wind up costing retirees 20 percent of their annual income, according to the employee benefit consulting firm Hewitt Associates. This may explain why three times as many boomers say they fear major illness and healthcare expenses more than dying.

Here's another pressure point: With recent record low mortgage interest rates and surging home values, Americans have been refinancing their mortgages in droves. This includes young boomers like the Eberts.

Last year, the Eberts refinanced their mortgage and took some of their equity out of the home to pay for additions to their house. They redid their kitchen and added a bedroom and a garage for their growing family. To do so, they took an old 30-year mortgage—of which they already paid down 12 years—and replaced it with a new 30-year loan. This means Paul will be around 77 by the time his home is paid off.

Worse still, because of the renovations, the couple's monthly mortgage payments actually increased even though they refinanced at lower rates. "It bothered me a bit to take that on," says Paul, but "we really didn't have a whole lot of options."

Mortgage bonfire. The fact that so many Americans will be carrying mortgages well into retirement means that the old rule of thumb of needing to replace 70 or 80 percent of your preretirement income is out the window. "That may have been true in the old days, when retirees burned their mortgages before retiring," says Rande Spiegelman, vice president of financial planning for the Schwab Center for Investment Research. But today, he says, young boomers should plan on saving enough to replace 100 percent of their preretirement income—minus whatever they are setting aside to build up their nest eggs.

If only there were a federal Leave No Young Boomer Behind Act. But, says Daniel Houston, senior vice president for retirement and investor services at the Principal Financial Group, "there are no silver bullets. The Lone Ranger left the last one of those on the prairie."

So what should one do? For starters, young boomers simply have to save more money. Period. This may be diffi-

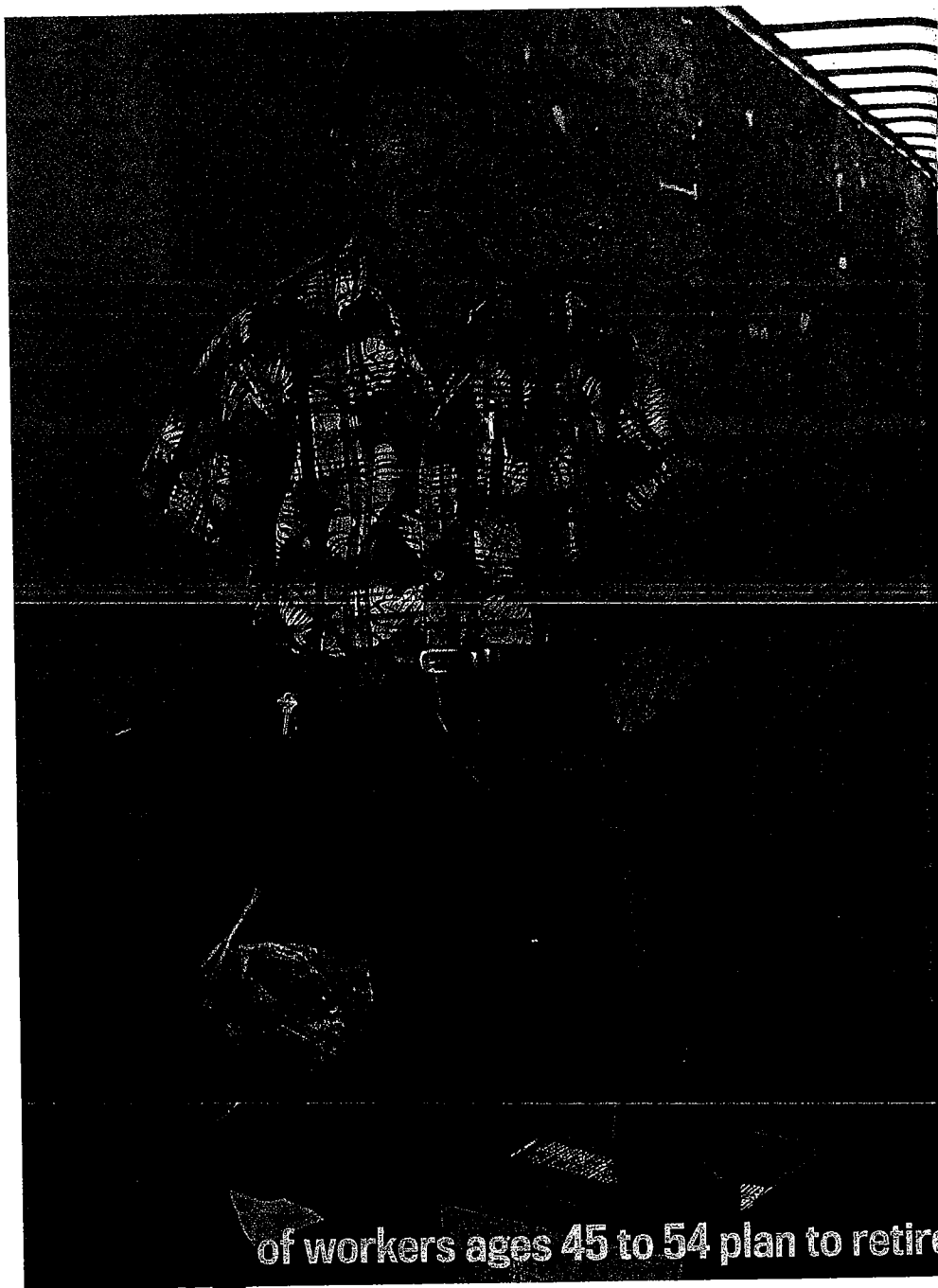
cult for workers who are simultaneously paying their children's college bills. But "if you don't cut your spending voluntarily now, you'll be forced to cut your standard of living in retirement," says Houston.

Consider this: Fifty-five percent of young boomers—those ages 45 to 54—have saved less than \$50,000 toward their retirement, not including the value of their primary residences. Two thirds have less than \$100,000 saved. And nearly 9 in 10 have less than \$250,000.

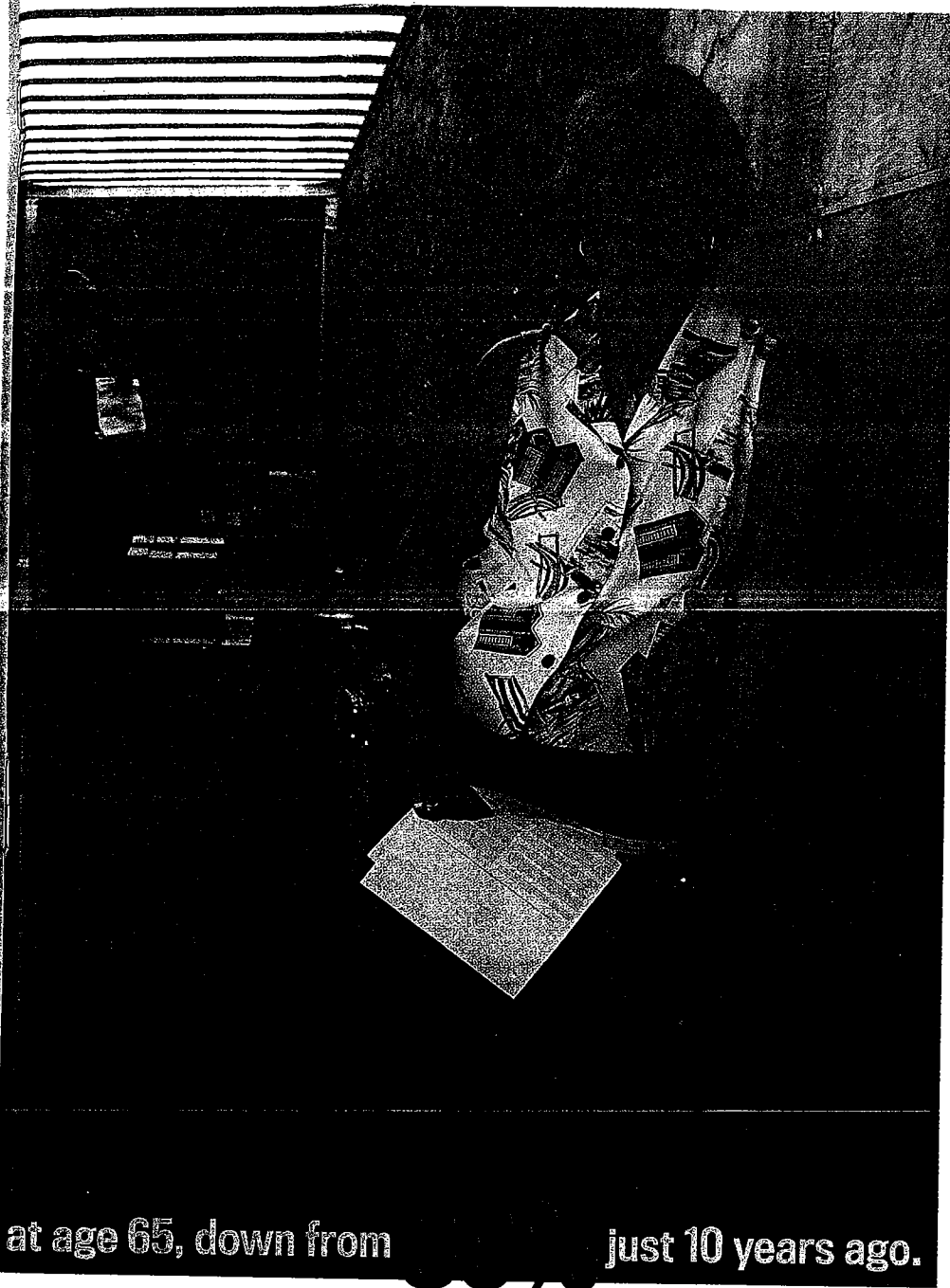
Yet academic research shows that re-

tirees who want to play it safe can afford to withdraw only 4 percent to 5 percent of their nest eggs each year in retirement—if they want them to last for 30 years or more. Even a person with \$250,000 could afford to tap only \$10,000 or so annually.

The good news is many young boomers, like David Fooshe, 50, are getting the message. Fooshe, an engineering project manager in Portland, Ore., has always made the maximum contributions allowed in his 401(k)'s and IRAs. But in recent years, he has also



of workers ages 45 to 54 plan to retire



at age 65, down from just 10 years ago.

Running their own business is Kim and David Scofield's solution to retirement.

gist of Morgan Stanley's individual investor group, says today's young boomers are "facing relatively mundane and mediocre returns in the stock market." After a 20-year stretch of better-than-average returns, equities are likely to underperform in the coming years. He predicts annual equity returns of around 6 to 8 percent a year, well below their historic long-term average of more than 10 percent.

Savings edge. Moreover, Christine Fahlund, senior financial planner with T. Rowe Price, recently studied the probabilities of meeting retirement goals and discovered that saving more is far more effective in improving your odds of funding retirement than investing more aggressively.

But all is not lost. Young boomers have other assets at their disposal—such as real estate.

James Diamond, 48, has been buying real estate in recent years not for speculation but for income. Diamond, an estate planning attorney, purchased several rental properties in Southern California over the past two decades. When he leaves the workforce, he doesn't plan to sell those properties but rather to use their rent as supplemental income.

Dennis Poisson, 51, of Macomb Township, Mich., has a simpler plan in mind. While Poisson, a manager for General Motors in its design division, is eligible for a traditional pension, he says he and wife, Danielle, want to play it safe. Once they retire, in about a decade or so, their intent is to sell their 3,000-plus-square-foot home and downsize to a 1,500 square-foot condominium. "That's our insurance policy that we'll be able to travel and do all the things we like to do," he says.

But for many, if not most, the simplest option will be to work longer. A decade ago, with a bountiful stock market, the vast majority of Americans ages 45 to 54—83 percent—said they planned on retiring at 65 if not earlier. Today, with stocks trading below the highs they reached in 2000, a majority say they plan on leaving the workforce at 65 or older. One in 10 young boomers says he or she never plans to retire.

Part of this is tied to the current state of young boomers' finances. But it also

begun taking advantage of the so-called catch-up provisions in tax-deferred retirement plans. Next year, workers 50 and older are allowed to put an additional \$5,000 into their 401(k)'s and \$1,000 into their IRAs.

It helps to start the saving habit early. The Schwab Center for Investment Research concluded that all workers should start saving 10 percent to 15 percent of their income in their 20s. That way, they can maintain that rate all their working life. If you wait until your 30s to start, then you need to set aside 15 percent to

25 percent of your annual income for the rest of your career. Workers who haven't started by their early 40s will need to sock away 25 percent to 35 percent of their incomes annually to make up for lost time.

For many, this represents a huge undertaking. But keep in mind that if you're maxing out your 401(k) and contributing to an IRA, you may already be close to hitting 15 percent.

You may think you can play catch up with the stock market. Think again.

David Darst, chief investment strate-

has to do with the different views that young boomers have about work and retirement than those of their parents.

A recent Merrill Lynch survey of boomers found that only 17 percent want to retire for good. A majority want to either work part time or to cycle back between work and leisure. "What many boomers are beginning to realize is that maybe a life of complete and total leisure is first of all unaffordable," says Ken Dychtwald, chief executive of Age Wave, a consulting firm that focuses on boomer and retiree behavior. "And secondly, they are finding out that it may not be as satisfying as we once believed."

For young boomers, this attitude is a major asset, as working longer—whether part time or in another capacity—for even two more years can drastically improve a retirement plan.

A study by Hewitt Associates last year, for example, found that workers ages 50 to 54 at large U.S. firms—many with rich retirement plans—were on track to replace nearly 89 percent of their income if they retired at 65. This figure includes not just 401(k) balances but proceeds from pension plans and Social Security.

However, delay retirement to 67, and they would be able to replace more than 100 percent of their preretirement income.

This is why Patti Brennan, president of Key Financial, a financial planning firm in West Chester, Pa., says it is important for young boomers to plan for a so-called transitional phase between work and full retirement.

You can use this transitional phase to test the waters for retirement. The last thing you want to do, says Brennan, is step out of the workforce and begin tapping your nest egg just as a big bear market approaches.

Back to work. This transitional phase can also be used to build up additional savings by working longer. This is what the Eberts say they plan to do. After their youngest child finishes college, Margaret may shift from part-time work back to a full-time schedule while Paul might

work well through his 60s to compensate for the years in which their retirement savings were diverted to college bills.

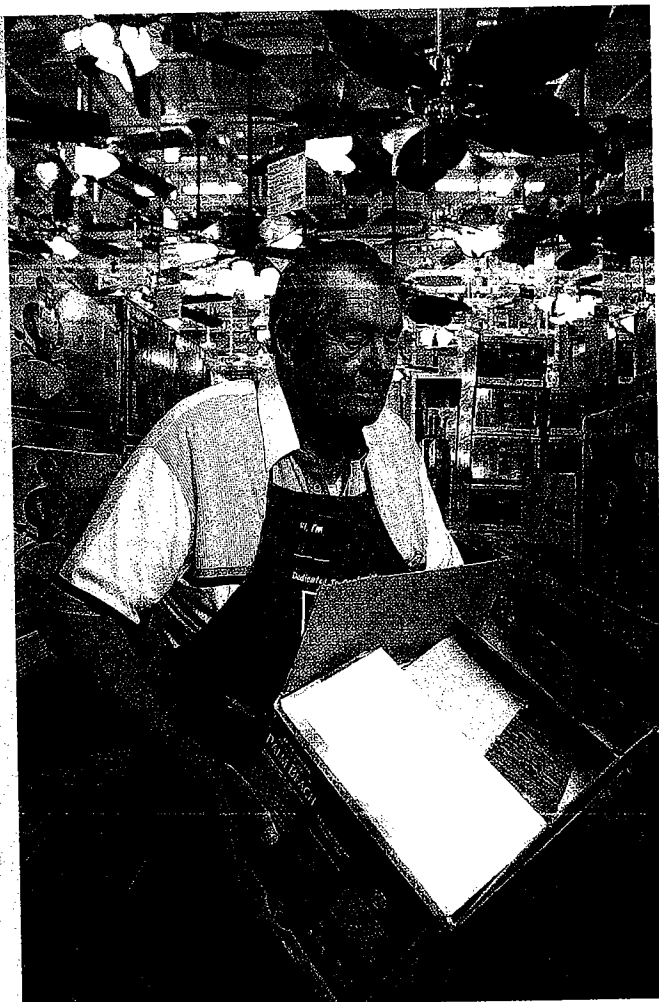
The good news is young boomers are by nature flexible. A recent survey by Principal Financial asked workers 45 to 54 what they would do if they found Social Security doesn't provide them the income they expected. The vast majority said they would either work longer or phase into retirement.

These are folks like David and Kim

Recently, the couple took a leap of faith and opened their own small business, which distributes tiles, matted rocks, and other flooring materials. Kim says the couple was able to more than double their income over the past year with the new business. As a result, they've been able to increase their IRA balances by more than 50 percent. But without a pension plan, the Scofields realize that they need to save more to make up for those lost years.

HELP WANTED

Surveys show that many young baby boomers plan to work beyond the traditional retirement age of 65. A majority say that even in retirement, they expect to work part time or to cycle back and forth between the workplace and leisure. Some want to do this just to stay active. Others need the money. But are there companies out there looking to hire 60- and 70-year-olds? In an effort to match up older Americans looking for work and companies looking for experienced hands, AARP has launched a new job page on its website. By clicking on www.aarp.org/featuredemployers, you will find a list of 13 major companies that have job openings and have expressed an interest in recruiting older workers. Among them: **Home Depot, MetLife, Pitney Bowes, Universal Health Services, and Walgreens.** Emily Allen, director of AARP's workforce initiative, says that by October, 10 additional large employers should be added to the list.

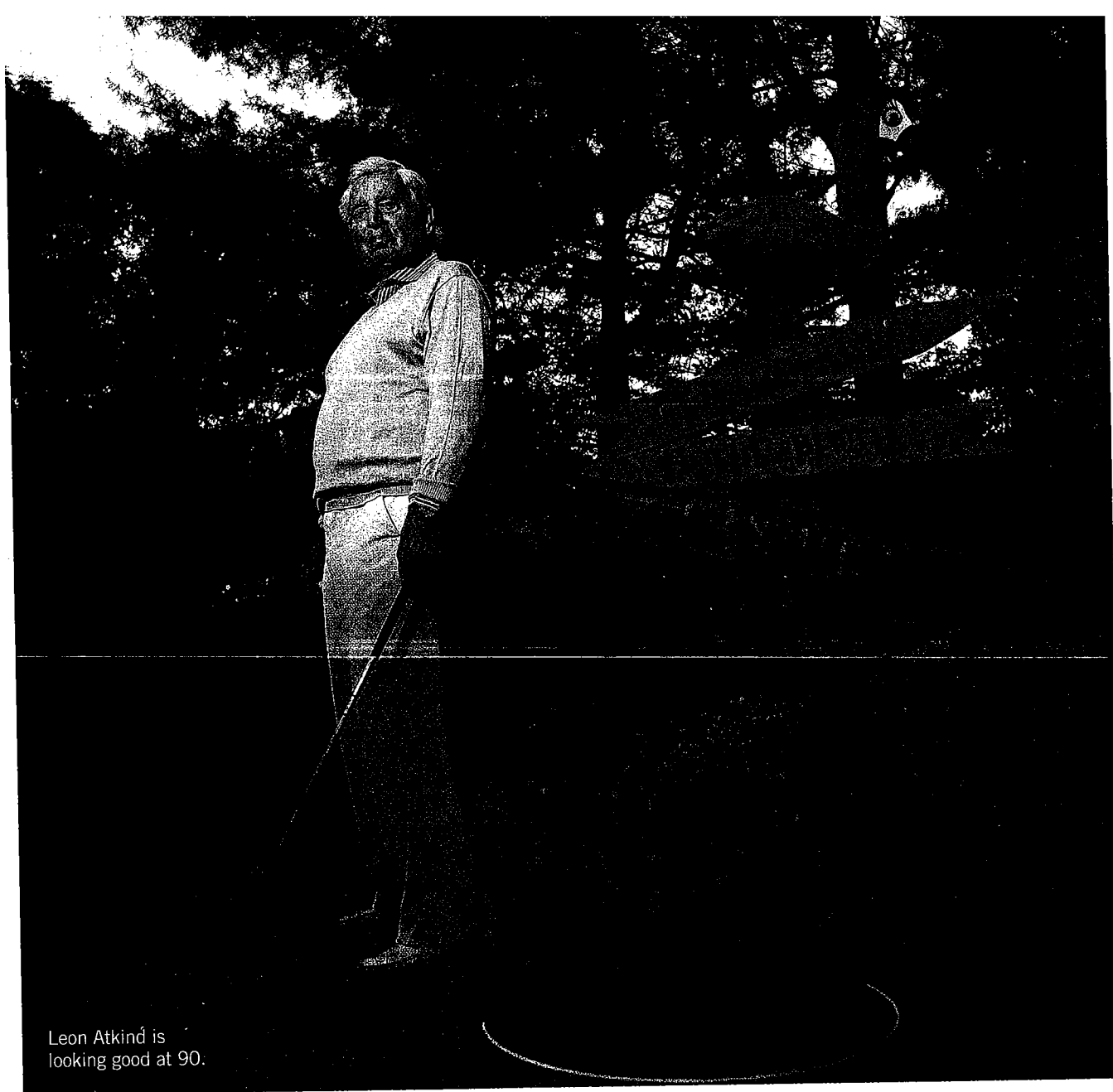


Scofield. The Ocala, Fla., couple spent years working on commission as sales agents in the tile and flooring industry. Because they weren't on a fixed salary, though, saving a regular amount of money each year was always a challenge, says Kim, 48.

Though she and husband, David, 53, always wanted to save 10 percent to 20 percent of their incomes, the reality is, they had less than \$100,000 in their IRAs. "It's not very much money," she says. On top of that, they had amassed more than \$25,000 in credit card debt.

Kim says the couple plans to work well into their 60s, if not early 70s. Then, they may work part time while their son takes over the business. "We were in a situation, before the business, where we felt that we had to work the rest of our lives just to make ends meet," says Kim.

"We've been able to turn our finances around. But now, I'm having so much fun I don't even consider retiring." That may be just the attitude that young boomers need to make the new retirement model work. ●



Leon Atkind is looking good at 90.

A RIPE OLD AGE

The right foods, moderate exercise, and regular medical checkups can add years to your life

By Christopher J. Gearon

Congratulations, you've saved for retirement or are well on your way. Now you just need to stay healthy in order to enjoy the rewards. The good news: You can do a few things that will significantly reduce your chances of dying prematurely, while making your golden years shine more brightly.

The bad news is that even the simplest

steps prove too difficult for many to follow. That includes exercising, eating a balanced, low-to-moderate-fat diet, quitting smoking, and getting regular medical screenings and checkups. That's too bad, as retirement is not just a time for slowing down. It's also the time when many serious health problems—including heart disease, cancer, and strokes, the top three causes of death for people over 65—increasingly show up.

Tim Gormley of Bow, N.H., learned

this the hard way. Now 65, Gormley escaped a close brush with death in 1998, which forced him into early retirement. A former school superintendent, Gormley rarely saw a doctor and considered himself healthy, even though he worked long hours, didn't exercise, gorged on red meat, and indulged a weakness for eating whole pies with crusts made of lard.

While shoveling snow one day, Gormley suffered a heart attack. He underwent a quintuple heart bypass and later had a pacemaker installed. "It was a big-time wake-up call," he says. Gormley replaced the red meat with chicken, turkey, and salmon and began eating more fruits, vegetables, and whole-grain breads. He became an avid walker and began meditating. He lost nearly 35 pounds, dropped from a 38-inch

to a 35-inch waist, and says, "I have a lot more energy and stamina now than I probably had 10 years before [the heart attack]."

Living longer. Americans' life expectancy has increased dramatically over the past century, from 47 years for someone born in 1900 to 77.3 years for those born in 2002. Reach age 65, and you can expect to live on average an additional 18.2 years. Changing bad lifestyle habits in your 50s and 60s and even beyond can reduce or prevent suffering from the diseases older people face, as well as make you feel better.

"People tend to think of breakthroughs in medicine as a new drug, laser, or high-tech surgical procedure," says Dean Ornish, founder of the nonprofit Preventive Medicine Research Institute, clinical professor of medicine at the University of California-San Francisco and bestselling author. "They often have a hard time believing that the simple choices that we make in our lifestyle—what we eat, how we respond to stress, whether or not we smoke cigarettes, how much exercise we get, and the quality of our relationships and support—can be as powerful as drugs and surgery, but they often are."

Leon Atkind, 90, of Clifton, N.J., cites "eating sensibly and keeping exercising" as two key reasons he stays healthy and loves life. While recent hip and knee replacements have kept him off the golf course longer than he prefers, the former owner of a menswear chain and current chairman of Smart Cars USA still swims daily. Throughout his adult life, he has been active, playing tennis, handball, and golf. He also says his mother fixed healthful meals for her family, cooking with whole-wheat flour and brown rice, for example, rather than refined white counterparts.

Adopting such eating habits at almost any age will reap benefits, says Alice Lichtenstein, director of the cardiovascular nutrition laboratory at Tufts University. Think dietary pattern, rather than going on a diet. "It really has to be a lifestyle, a permanent shift," she says. Lichtenstein recommends aging adults eat a moderate-fat diet, in which about one third or fewer calories come from fat, but warns against going on a very low-fat diet, as that can raise triglycerides and lower the good HDL cholesterol. But keep the saturated and

so-called trans fats low. "Think energy-producing calories," she says.

Research suggests a preferable diet is one high in fruits and vegetables and whole, not refined, grains, with a moderate intake of lean meats, fish at least twice a week, and some amount of low-fat or nonfat dairy products. Even small changes, such as selecting leaner meats, preparing them differently, or using milk instead of cream in coffee, are beneficial and help reduce the risk of heart disease, cancer, and other leading killers.

Studies show that women who don't smoke, are not overweight, exercise moderately, and eat a healthful diet have 82 percent fewer coronary prob-

your 50s, 60s, and 70s, but it will go the other way if you exercise," says Miriam Nelson, director of Tufts University's John Hancock Center for Physical Activity and Nutrition and bestselling author of exercise books. Nelson's advice: Do something you enjoy, and take advantage of seasonal activities, exercising for at least 20 to 30 minutes a day. For those in their 50s or older, walking is a good base activity, but on two or three days you may want to add or substitute some strength training. Start gradually, and include flexibility exercises to help maintain balance as you age, to prevent debilitating falls.

Three quarters of all cancers are diagnosed in individuals 55 and older. That reality, combined with seeing the deaths of loved ones and caring for her mother, led Manlius, N.Y., business owner Anne Messenger, 58, to make some lifestyle changes, including getting regular cancer screenings. Checkups can detect such cancers as breast, colon, rectal, cervical, prostate, and others at early stages, when treatment has a higher chance of success.

Experts advise getting regular medical care, including checks on blood pressure, cholesterol, and glucose levels. While many adults are prescribed medicines for keeping conditions in check, experts caution patients not to shirk making lifestyle changes proven to have lasting positive effects.

"Older adults are definitely on too many medications," says Sharon Brangman, a Syracuse geriatrician and a board director of the American Geriatrics Society. That's dangerous, as older patients can't tolerate certain medications, higher doses, or mixing of certain medicines. And don't rely on unproven supplements to improve your health, suggests John Swartzberg, director of the joint medical program of the University of California-Berkeley and UC-San Francisco. "There's a lot of hype and not a lot of science" behind them.

What it comes down to is the age-old wisdom of your mother: Eat well, exercise, and visit the doctor for checkups. Do that, along with maintaining a network of friends, avoiding cigarettes, and keeping stress to a minimum, and you have more than just a better chance of living to a ripe old age. You may enjoy it that much more. "It's not just lowering risk [to disease]," says Ornish, "it's that you'll feel better." ●

HEALTHY RETIREMENT TIPS

Follow these basic steps to reduce your risk of developing a wide range of deadly conditions or to keep a chronic disease in check. The benefit: a longer and healthier life.

Diet: Lots of fresh fruits and vegetables, whole grains, lean meats, fish, and low-fat or no-fat dairy. Easy on the sugars and saturated and trans fats. Consult with your doctor on vitamins and other supplements.

Exercise: Engage in a physical activity most days for 30 minutes. It could be walking, raking leaves, or more vigorous exercise. Add strength and flexibility exercises into your routine.

Smoking: Don't, and if you do, quit.

Stress: Manage or reduce it with exercise, stretching, relaxation, breathing, medication, or other stress-control techniques.

Checkups: Regular doctor visits and tests, from those for cholesterol to cancer screenings, help find diseases or problems early and make them easier to treat.

lems. Ornish's own research shows that most people with severe coronary heart disease can stop or reverse the condition by making comprehensive lifestyle changes, without drugs or surgery. His latest research indicates that these lifestyle changes may slow the progression of prostate cancer, too. Other research has found that healthful eating habits and exercise may reduce the risk of breast cancer.

Combining a good diet with exercise is a better hedge against premature death, and people report feeling better and enjoying life more. No wonder such lifestyle changes are also shown to reduce other conditions that make life more painful, including diabetes, obesity, dementia, arthritis, and other chronic conditions of advanced age. "You're given one body, and it's going to deteriorate real fast in



FINDING INCOME IN RETIREMENT

An immediate annuity offers a guarantee for those fearful of the stock market

By Paul J. Lim

In the decade since she retired as an administrative secretary for a local school district, Hope DeSales Caines managed to make ends meet through a combination of a modest pension and Social Security. But recently, the Maple Shade, N.J., resident discovered that as the cost of living has risen, her income has not. Caines, 74, concluded that she needed to supplement those checks with the personal savings she cobbled to-

gether during her working years.

Caines was fearful of making the same mistake that friends had: losing money in the stock market. For retirees, the margin for error can be quite slim. Academic research shows investors can afford to withdraw only 4 to 5 percent of their savings annually if they want to be certain the money will last 30 years or more. And that's if you invest those assets soundly. "I always felt I worked hard for the money, and I didn't want to lose it," Caines says.

So instead of simply tapping her retirement accounts, last year she used a portion to buy a fixed immediate lifetime annuity through New York Life that promises to pay her income for life.

Immediate annuities have gotten a good deal of attention lately. As part of his plan to revamp Social Security, President Bush has broached the idea of retirees' purchasing annuities with money earned in the private investment accounts he favors.

Bum rap. Today, very few people choose to turn their 401(k)'s, IRAs, and private brokerage accounts into annuities at retirement. Part of the problem is that some associate the term *annuity* with variable deferred annuities, a combination life insurance and investment product that's often pushed by agents who work on commission and reviled by many cost-conscious financial planners.

But fixed immediate annuities are a different matter. While a variable annuity is a tax-deferred account used to accumulate assets for retirement, a fixed annuity is a tool designed to produce stable income during retirement.

"People have historically benefited from a couple of different types of immediate annuities," says

Harold Evensky, chairman of the financial planning firm Evensky & Katz.

These include traditional pension plans once offered by many companies. The other is Social Security itself. "The former is disappearing, and the latter is shrinking," Evensky says, adding that privately purchased "immediate annuities are going to play a hugely important role in workers' retirement plans."

In its simplest form, a fixed annuity is an insurance contract that promises you a set amount of annual income for life—no matter how long that might be. Think of it as your own pension plan. In exchange for a lump sum of \$100,000, say, an insurance company promises to pay you \$7,000 to \$8,000 a year for the rest of your life. That's great if you buy one at 65 and live to 90 or older, since you will receive far more in payments than you put in. But should you die earlier than expected, the remainder of your initial payment belongs to the insurance company.

You can protect yourself somewhat by buying an annuity contract that guarantees payments for a set number of years. If you bought a 10-year annuity at age 65 but died at 70, your estate would collect the remaining five years

of annual payments. Another criticism of fixed annuities is that over time the purchasing power of the income they produce diminishes. But today, some annuities also include inflation protection, increasing their annual payments by 2 or 3 percent a year or by adjusting their payments based on the consumer price index.

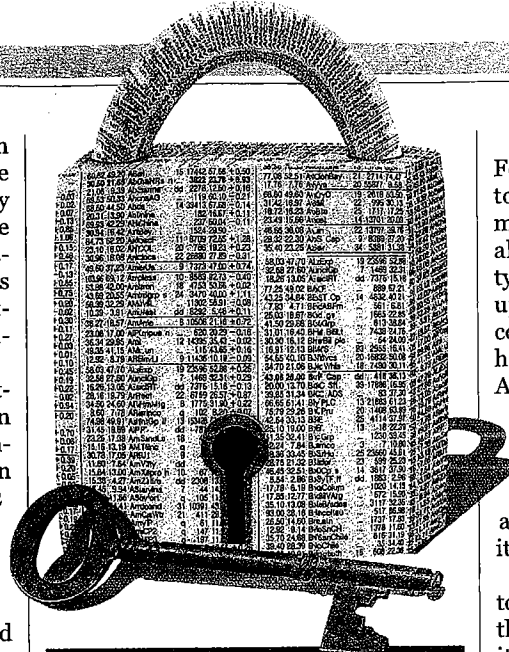
Annuities may even be a better investment than stocks at times, depending on market conditions. Baylor University investments Prof. William Reichenstein studied various portfolios between 1972 and 2000. He found that a 65-year-old retiree with a \$1 million portfolio invested in a mix of 40 percent stocks and 60 percent bonds withdrawing \$45,000 a year from his account would have run out of money in 1995, at age 88, in part because of poor performance in the early years. Had he taken half of his portfolio and bought a fixed annuity instead, he would still have had \$136,000 left at age 95.

"The neat thing about fixed immediate annuities is that they function like bonds in your portfolio," says Reichenstein. But the added advantage of the lifetime versions is that they promise to pay you the same amount until you die, not simply over five or 10 years. Moreover, while bonds can lose value, there is no such risk with these types of annuities. Because annuities are like bonds, investors don't have to have as much of their portfolios in fixed-income investments.

Margin of safety. Because insurance companies pool the money and life expectancies of thousands of annuity buyers, they can typically offer more income than an investor could safely generate with the same amount of investment. A 65-year-old man might only feel comfortable taking out \$5,000 at most from a \$100,000 retirement account. But that same man could go to an insurer and get a fixed annuity paying around \$7,500 a year for the rest of his life.

"If you think you need a million dollars to retire but saved only \$750,000, you can annuitize a portion of your account to spend as much as someone with \$1 million," says Rande Spiegelman, vice president of financial planning for the Schwab Center for Investment Research.

But this does not mean an immediate annuity is for everyone. Some might already have enough guaranteed income from a traditional pension plan at work, for example. And you should not use all or even most of your assets to purchase an annuity. You never know when an



ANNUITIES 101

A single-premium fixed immediate lifetime annuity is an insurance contract that promises to convert an unpredictable asset—an investment portfolio of stocks and bonds, say—into a predictable stream of income at retirement.

The term **single premium** refers to the fact that you pay with a lump sum.

Fixed means the income will not fluctuate over time (though now you can buy inflation-adjusted annuities).

Immediate means the insurer will cut you the first check soon after you purchase the annuity.

And **lifetime** means you will keep receiving that income even if you live to 120.

The level of monthly income you receive will depend on three things: prevailing market interest rates, your age, and your gender, as women tend to live longer than men.

emergency might arise or when your cash-flow needs will change. Most annuities lock in your money once you start receiving income.

The first thing to do is tally up your basic expenses, such as rent or mortgage, food, utilities, and healthcare bills. Then, add up the income you expect from Social Security and traditional pensions. If Social Security and your pension don't cover all your basic needs, consider filling in the gap with an immediate annuity, says Ted Mathas, executive vice president of New York Life.

You should not hurry into a decision. For one thing, annuity payouts are tied to long-term interest rates, and those may be headed upward. Payments are also tied to age, just like Social Security. So by waiting even five years to sign up, you can increase your monthly income significantly, says Tim Vander Pas, head of annuity product management at Allstate Life Insurance Co.

At Allstate, a 65-year-old male could currently purchase a \$100,000 single-premium immediate annuity and receive \$622 a month for life. But a 70-year-old who buys the same annuity gets \$712 a month.

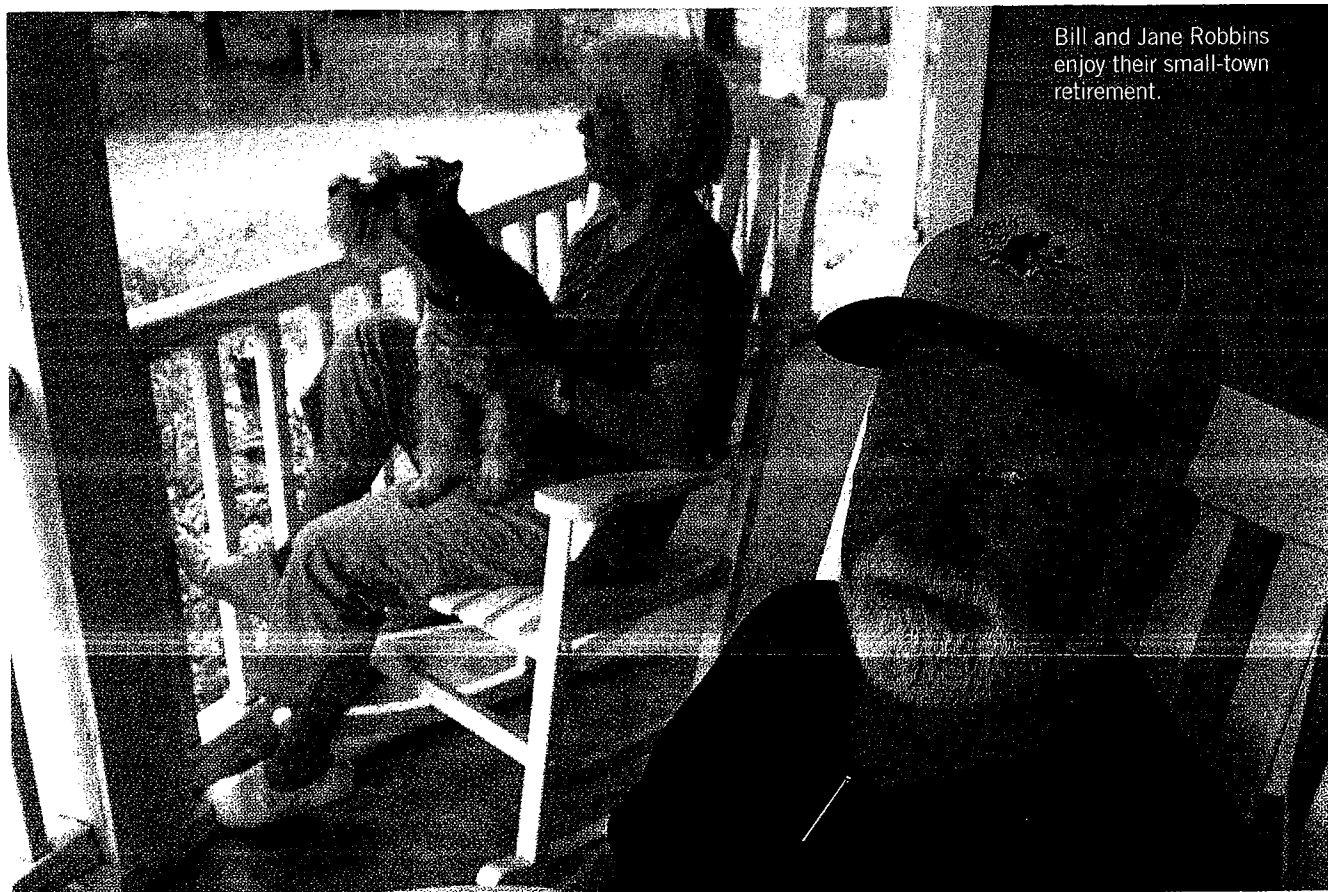
Of course, some retirees can't afford to wait to start receiving income. If that's the case, consider buying a small annuity now that's enough to cover basic expenses, such as rent and food. Then, if your income needs increase, you can always purchase another annuity contract to supplement the current one.

"One of the things we've advocated is laddering your income annuities, like you would CDs or bonds," says Drew Denning, a vice president for income management at Principal Financial. "So maybe you break your purchase into three chunks, with a portion bought one year, another bought the next year, and a third bought a few years after that."

Consider using different providers for each annuity. You are entering into a long-term contract, and since there is no way to tell with absolute certainty if your insurer will be around 35 or 40 years from now, it pays not to put all your annuity eggs in one basket. Stick with insurers who have strong financial profiles, such as those rated AA or higher, says Reichenstein.

And think twice about all the add-ons, says Rob Nestor, a principal with the Vanguard Group. While inflation kickers might sound attractive—after all, everyone wants to keep up with the cost of living—bells and whistles can be expensive. At Vanguard, a 70-year-old who buys a \$100,000 immediate annuity can expect around \$9,000 a year for the rest of his life. But an inflation-indexed contract at Vanguard would begin with a payment of about \$6,750, which then would adjust up annually as prices rise. "That's a pretty big haircut," Nestor says.

Remember, annuities are supposed to be only one part of a diversified overall retirement plan. You can always use the other half or three quarters of your money to invest in a mix of bonds and stocks, which is a natural hedge against inflation. ●



Bill and Jane Robbins enjoy their small-town retirement.

GOOD RIDDANCE TO THE RAT RACE

Today's retirees are looking for the good life in all the small places

By Nisha Ramachandran

Lutz, Fla., was a simpler place when Bill and Jane Robbins moved there in the late '60s. Orange groves, cypress trees, and pastures surrounded the couple's home. And the drive to nearby Tampa, where Bill worked as an electrical contractor and Jane held a job as a secretary, was short. The couple thought they would never leave.

All that changed as their retirement years approached. Lutz had grown rapidly over the past 30 years. In place of orange groves and pastures, the Robbinses found their home surrounded by gated communities and big-box stores. That idyllic drive to Tampa? It was replaced by a harrowing commute, on traffic-congested highways. So after a few retirement years filled with irate drivers and rushed neighbors, the Robbinses started searching for a slower pace of life.

They found it in Thomasville, Ga. Just

30 minutes from the Florida state capital in Tallahassee, the city is a throwback to another era. Once a weekend-getaway spot for the rich and powerful—President Dwight Eisenhower was known to play golf at a local country club—Thomasville still sports a small-town feel. Lush oak trees and quaint Victorian houses dot its landscape, home to roughly 20,000. The city is also amenity rich for its small size; a newly revitalized downtown includes an eclectic mix of restaurants and high-end stores and a top-notch hospital, which will soon boast a \$22 million cardiovascular center. "We're just tickled pink with what we've found," says Bill, who moved to a 4-acre farm with his wife last year. "Between the country atmosphere and the down-home attitude, I've enjoyed my time here."

The quiet life. Bright lights, big city Thomasville certainly is not. While larger metropolitan areas like Las Vegas or Tampa are still retiree magnets, smaller

cities and towns have come increasingly into vogue. Indeed, the fastest-growing metros for seniors are now in the small-to-medium-sized range, according to an analysis of the 2000 census by Brookings Institution demographer William Frey. Locales like Myrtle Beach, S.C., and Naples, Fla., consistently make lists of the best places to retire; both saw their 65-and-over populations increase by more than 60 percent from 1990 to 2000.

Driven by the desire for less congestion, lower crime, and cheaper house prices, many are leaving the cities for smaller places. Of those who lived in metropolises with populations of 5 million or more, one third retired to cities of between 1 million and 5 million, according to a study of census data by Charles Longino, a Wake Forest University sociology professor. A slightly smaller share moved to cities with even smaller populations.

Dave and Molly Freitag are typical of this new breed. Feeling trapped by the

rapid growth around their Bellevue, Wash., home, the Freitags moved to tiny Prineville, Ore., last year. With a population of around 8,000, Prineville is a tight-knit community. "If you go into the hardware store and you don't have your dogs with you, they ask you where your dogs are," says Dave. The low cost of living was another draw: The median price of a single-family home in the county was just \$129,240 in 2005, compared with \$321,100 in Seattle and \$172,800 in Tampa.

Of course, there are downsides to living in a small town. Prineville residents only recently got high-speed Internet ac-

and are close to traditional metropolitan areas, with activities galore.

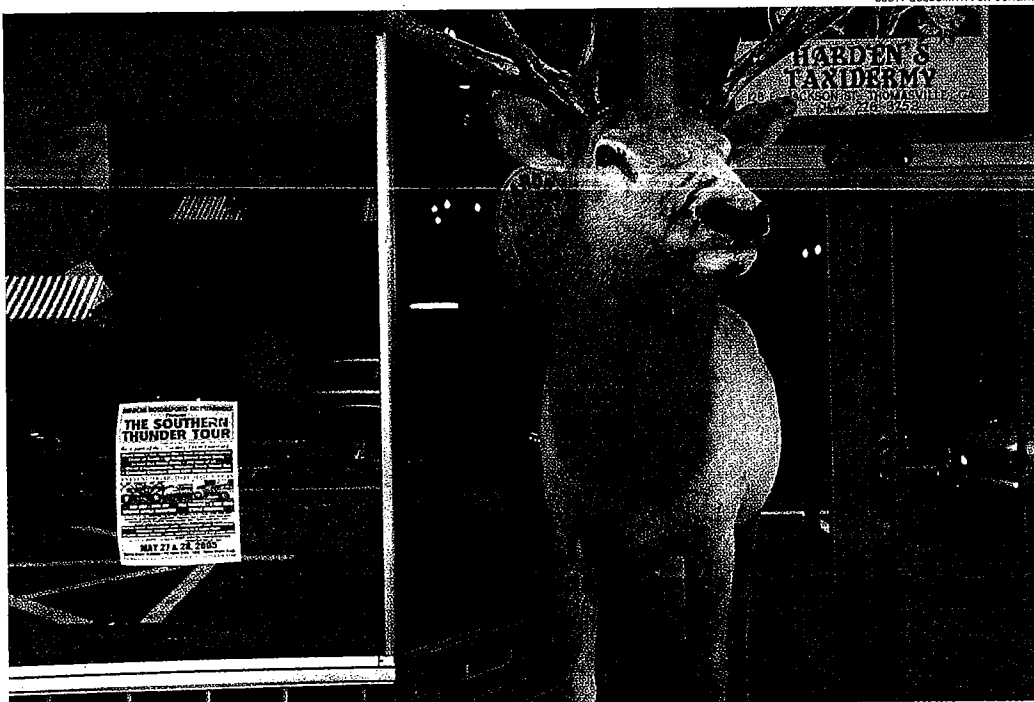
Finding an active community was "an absolute essential" for Ben and Pam Lenz, who moved from Sea Cliff, N.Y., to a retirement development next to Oberlin College in Oberlin, Ohio. "We are interested in everything," says Ben. "We will go to ballgames, go to see a kung fu movie; we'll go to almost everything and give it a chance." The couple knew they wanted to maintain an active lifestyle after they retired, and the college town afforded them all the amenities they wanted. A local conservatory in town offers the chance to see operas and listen to sym-

That may be particularly true of the wave of baby boomers set to retire over the next few years. Also at the top of retiree wants: Sixty-six percent of boomers indicated they would move for a better sense of community, according to a study recently conducted by developer Del Webb.

Silverthorne, Colo., may offer a glimpse into this future. It may not have a large retiree population yet, but its 55-and-over population is soaring—up 27.5 percent from 2000 to 2003. Many of its new residents are second-home owners, who hope to one day use their vacation houses as their retirement homes. A survey of the city done by the Northwest Colorado

Council of Governments found that 28 percent of second-home buyers bought with the intention of retiring there.

Ski bums. That's partly because Silverthorne offers soon-to-be retirees an active lifestyle filled with skiing in the winters and hiking and biking in the summers plus a vibrant social circle. The lifestyle is attractive to younger retirees, like Fran Lazarus and her husband, Barry, who retired eight years ago in their early 50s. The two discovered Silverthorne on a ski trip shortly after they stopped working and fell in love with all the area had to offer. Now living full time in Summit County, just outside town, the Lazaruses are involved with the Over the Hill Gang International, a ski group for older adults. They also host potlucks and go hiking with other



"Between the country atmosphere and the down-home attitude, I've enjoyed my time here."

Bill Robbins, Thomasville, Ga.

cess. And while new Thomasville transplant Joe Ann Hinrichs enjoys having a larger garden, she still misses easy access to department stores like Macy's. Still, of the sprawl and development she left behind, she says: "It's nice to visit, but you don't want to live there."

But those who make the shift don't often leave the urban life far behind. The new hot spots are those that have an intimate, cozy atmosphere but offer a wide range of cultural and recreational activities. Also popular are the "micropolitan" towns like Prineville and Thomasville. These communities typically have populations between 13,000 and 182,000

phonies. Seniors can also audit classes at Oberlin free of charge. So far, the couple have taken classes in astronomy and art history.

In part, this move to small but active communities reflects how retirees are viewing this new phase of their life. "Many people are looking for a more varied existence than what people looked for 20 or 30 years ago," says Warren Bland, author of *Retire in Style*. "For the moment, Americans are living longer and healthier than previous generations, and they tend to be vital, whether it's going to the local symphony or golfing. They want things to do."

retirees. "We feel like it's a new passage, a new rite of life," says Fran.

For their part, smaller communities are starting to recognize the wave of retirees who may come their way. The Thomasville Chamber of Commerce recently hired a consultant to study the pros and cons for retirees living in the city. Among the findings: the need for a more diversified mix of housing. A condo development is now in the works, replacing an abandoned hotel above the storefronts on Broad Street, the city's main drag. "When people think of Thomasville," says chamber President Don Sims, "I want them to think retirement." ●

CASHING IN ON YOUR HOME

It's no surprise that reverse mortgages are becoming popular among seniors

By Leonard Wiener

For many of today's retirees, a home can seem like Fort Knox without the key. Escalating real-estate prices have caused many seniors' homes to skyrocket in value. But unless they're willing to sell, it may be an inaccessible gain during a time in their lives when extra income and liquid assets would be most welcome. There is a way to tap those profits—a reverse mortgage. "Many seniors are sitting on home equity they never dreamed of," says realty expert Tom Kelly, whose recent book, *The New Reverse Mortgage Formula*, is a guide to what a growing number of elderly homeowners see as a way to have their home and cash in on it, too.

A reverse mortgage allows a homeowner to borrow against the equity in a home, but unlike a home-equity loan, the loan and interest do not have to be repaid until the home is sold. The loan might be in the form of a line of credit that can increase over time and be drawn on as needed, a lump sum payout, a fixed monthly check for as long as you live in the home, or a mix of options. There is minimal or no upfront cost, as closing and other fees can be wrapped into the loan. The reverse mortgage also pays off any existing mortgage, ending that

monthly bite on income. Cleo Dunn, an 88-year-old widow in Leawood, Kan., says the \$1,200 a month she receives from her reverse mortgage supplements her Social Security check. That helps her pay medical and other bills while remaining in the home she loves. "I have this most beautiful garden," she says. "I have a life here I could not have anywhere else."

Reverse mortgages have been around for years, but it wasn't until the early '90s that they began earning respectability after the Federal Housing Administration started insuring the mortgages for repayment to lenders. Even so, they've been a niche product; only about 40,000 were done last year. But an aging population is expected to begin tapping into home equity more aggressively.

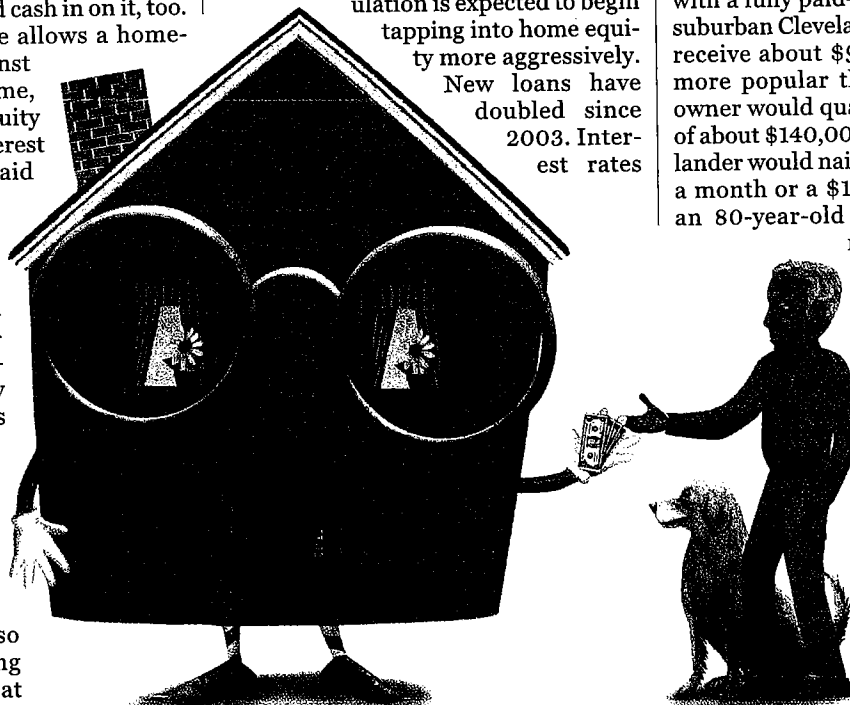
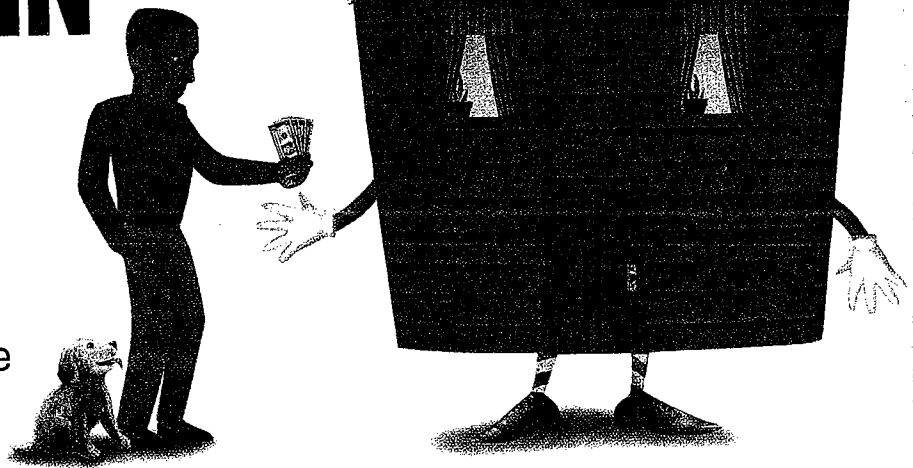
New loans have doubled since 2003. Interest rates

on reverse mortgages are mostly about 5.3 percent now but can also be about 6.5 or 8.5 percent, depending on the type and size of the loan.

Bolstering demand are seniors who see the loans not as a lifeline but as a route to a more active life. Francisco and Joanne Santana-Montez of Antelope, Calif., 69 and 68, will use their reverse mortgage line of credit to finance a dream trip to Cancún, Mexico. "Our adviser told us we're spending our kids' inheritance, but our children are delighted," says Joanne.

A prime consideration when getting a reverse mortgage: age. The older you—and a spouse—are, the more cash you can get since the loan will presumably be shorter in duration. A 75-year-old with a fully paid-off \$250,000 home in suburban Cleveland, for example, might receive about \$917 a month. Or, as is more popular these days, the homeowner would qualify for a line of credit of about \$140,000. A 70-year-old Cleveland would nail down less, about \$791 a month or a \$130,000 line of credit; an 80-year-old would draw more, a monthly check of about \$1,099 or a \$152,000 line of credit.

Other variables, such as lending limits and interest rates, also determine how much of a home's equity you can borrow. But the homeowner can never end up owing more than the home eventually sells for, even if the sale doesn't cover the borrowing and accrued interest. If



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SOCIAL PLANNING

Seniors who fill up their calendars with a variety of activities are more likely to relish retirement

In his three decades of interviewing and studying older Americans, Gene Cohen, a psychiatrist and gerontologist who heads George Washington University's Center on Aging, Health, and Humanities in Washington, D.C., and author of the book *The Creative Age*, has found that retirement can be liberating and empowering. He talked with U.S. News & World Report Senior Writer Kim Clark about why Americans should take steps to make sure they enjoy their post-career years.

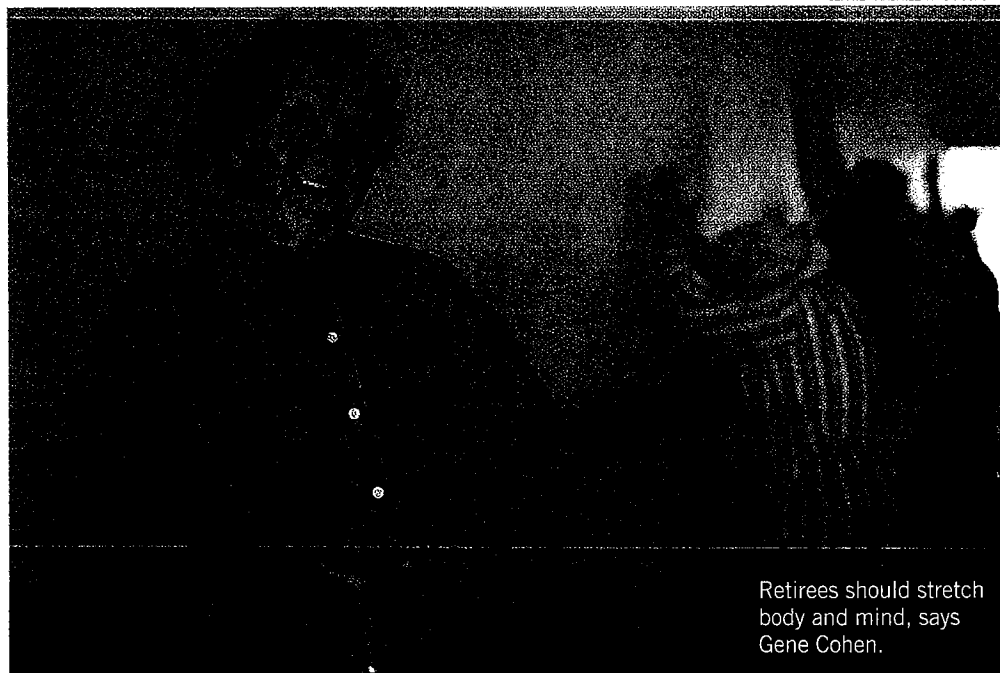
have a chance to challenge themselves and develop a sense of mastery. This is very important. People want something meaningful and satisfying, not some mindless type of thing, such as putting stamps on envelopes. Better planning would have helped.

So you developed a social plan along the lines of a financial plan?

Right. I tried to build upon something that was familiar to people. You have a financial portfolio. Why don't you have a social portfolio? You want to build up as many

new hobby. For example, I interviewed a 94-year-old woman. She had signed up for singing lessons at a community-based art program. She hadn't sung before. She said, "I can't believe I can sing. Every time I go I can read music better." After the first year of our study, the group (with an average age of 80) in the art programs reported increased health. Those in the control group (who didn't go to art classes) reported declining health. By the end of the year, those in the art programs ended up having more activities than at the start. Those who weren't had a reduction, which is what you would expect. Where you have a sense of control and mastery, you have positive health outcomes. Where you have meaningful social interactions, that, too, is associated with positive outcomes. They would go to these art class-

JEFFREY MACMILLAN FOR USNEWS



Retirees should stretch body and mind, says Gene Cohen.

TO-DO LIST

Diversified social assets—your activities and relationships—are key to a successful retirement:

HIGH-MOBILITY

Group: Participating in a theater troupe; educational travel; volunteering

Individual: Gardening; nature photography

LOW-MOBILITY

Group: Hosting a book club; creating a family newspaper with grandchildren

Individual: Researching a family tree; E-mailing family members

What mistakes do people make?

Fewer than 10 percent had any preparation for how they would spend their time. That was amazing. Almost everybody who was retired said they would have loved to have formally explored what they would actually do in retirement. Half the people were very satisfied with retirement. But half were not. There are those who flounder and are not happy. And then there are those who are so conscientious they fill up their time with a lot of stuff that is lousy and hard to leave because they are so conscientious. Suddenly their time is filled. But they have lost their flexibility, and they've gotten involved with things where they really don't

assets as you can. In your social portfolio, the assets are your activities and relationships. You want to diversify, and you want to prepare for a rainy day. You want group activities and individual activities. You want high-mobility activities and low-mobility activities. This way, if something happens to your mobility, you have backup low-mobility activities to draw upon.

Why are group activities so important?

You need to meet people over time and have a chance at relationship building. If you lose a spouse or a close friend moves, you have backup activities and relationships that help you deal with the loss.

What kind of activities are best?

Learning a new language, learning a

es weekly, and it was like getting a booster shot.

This advice seems like something that would be good for people of any age.

It really applies at any stage but more so in later life. I broke my femur last August and had to have the operation done twice. I have just been off my cane and crutches for a week. If everything that I did was skiing or running, I would be in a bad mood. [Cohen's own low-mobility activities include inventing games and writing science fiction.] It is just like a financial portfolio. You should start as early as you can, but it is never too late. Just like financial planning businesses, it would be great to see social planners. ●